

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED

6-23-17
04:59 PM

Order Instituting Rulemaking Concerning
Energy Efficiency Rolling Portfolios,
Policies, Programs, Evaluation, and
Related Issues.

Rulemaking 13-11-005
(Filed November 14, 2013)

**RESPONSE OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) TO
THE MOTION OF THE NATURAL RESOURCES DEFENSE COUNCIL
(NRDC), SIERRA CLUB, AND THE CALIFORNIA ENERGY EFFICIENCY
INDUSTRY COUNCIL (THE COUNCIL) SEEKING REVIEW AND MODIFICATION
OF THE THREE-PRONG FUEL SUBSTITUTION TEST**

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June 23, 2017

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Pursuant to Rule 11.1(e) of the California Public Utilities Commission's (Commission's) Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) hereby submits its response to the June 8, 2017 Motion of the Natural Resources Defense Council (NRDC), Sierra Club, and the California Energy Efficiency Industry Council (collectively, Moving Parties) Seeking Review and Modification of the Three-Prong Fuel Substitution Test (Motion).

I. INTRODUCTION

The Motion contends that the Test effectively serves as a roadblock to using utility customer-funded incentives for fuel substitution opportunities (even when there are significant climate benefits and energy savings available), is opaque with regard to its burden of proof, and is insufficiently aligned with the State's climate change and energy policies.¹ The Motion requests that the following issues be considered as part of Phase 3 of this rulemaking proceeding: (1) review of the Test for clarity, utility, and alignment with Commission policies and California's climate change goals; (2) clarification under what conditions the Test must be

¹ See Motion, p. 1.

passed; and (3) guidance on how projects or programs that include fuel substitution programs will be assessed using the Commission's cost-effectiveness tests required for all energy efficiency programs.²

It is clear to SoCalGas that Moving Parties want to revisit the Test for the primary purpose of eliminating or significantly scaling back one of its key attributes: promoting funding for cost effective programs and weeding out the cost-ineffective ones so that energy efficiency (EE) funds can be more effectively directed. Such modification is not in the best interest of the State, ratepayers, and the overall EE market.

Therefore, SoCalGas believes the Commission should deny the Motion because it is founded on a premise that is fundamentally flawed: that the requirement to demonstrate cost-effectiveness poses an unfair barrier to advancing energy efficiency. Further, Moving Parties' purported evidence provides no compelling or relevant support for its premise that modifying the Test will effectively aid the Commission's and State's drive towards meeting statewide EE goals.

However, if the Commission is inclined to revisit the Test in Phase 3 of this proceeding, a process by which factual assertions and purported evidence claiming to support a change in the test can be scrutinized through discovery and cross-examination (i.e., evidentiary hearings) should be instituted.

II. DISCUSSION

A. The Test Serves as Protection for Ratepayers

As new EE technologies have emerged since the Fuel Substitution Decisions (i.e., D.92-10-020 and D.92-12-050), the Commission has more recently stated, "[a]s a general policy, we encourage the utilities to deploy new technologies that can improve end-use efficiencies cost-

² See *Id.* at 1-2.

effectively without degrading environmental quality, as they become available.”³ Through instances where new EE technologies have caused a substitution between electric and natural gas energy,⁴ the Commission has suitably relied on the Test so that the technologies were predominantly EE (and not load building or load retention), and provided a net resource value to protect ratepayers’ interests, as well as to maintain customer choice in the marketplace. Investor Owned Utilities (IOUs) must utilize ratepayer funds to offer a cost-effective portfolio of EE measures and programs. Any modification of the Test could potentially remove or reduce these ratepayer protections by masking the cost or inflating the benefit to the ratepayer.

Furthermore, the IOUs have an obligation to pursue EE first in California’s Loading Order and to first meet their unmet resource needs through EE and demand reduction resources that are cost-effective, reliable, and feasible under the California Public Utilities Code.⁵ The Test is necessary so that any proposed fuel substitution activities for EE technologies are in accordance with these requirements. Additionally, the Commission has provided direction to parties requesting EE technology exemptions by requiring adherence to the current fuel substitution rules where EE technologies within programs/projects/measures must pass the Test to be considered for funding within the EE portfolio.⁶

Moving Parties argue that the Test is a barrier to California’s progress on Senate Bill (SB) 350’s EE doubling goal.⁷ However, SB 350 requires a doubling of *cost-effective and feasible* energy efficiency. Because the Test assesses cost-effectiveness, removing or modifying

³ D.07-11-004, p. 6.

⁴ D.05-04-051 approved the inclusion of solar water heaters and D.07-11-004 approved stand-alone solar-powered water circulators as eligible EE measures.

⁵ See Public Utilities Code Sections 454.55 and 454.56 for electric and gas corporations, respectively.

⁶ See D.07-11-004 at 7, for Commission guidance to PG&E’s recommendation for a blanket preapproval of future new solar technologies as energy efficiency measures, and exempting such technologies from the fuel substitution rules.

⁷ See Motion at 6.

the cost-effectiveness threshold does not make cost-ineffective EE programs/projects/measures viable as being counted toward SB 350's EE savings goals.

B. Commission Policy Should Not Limit Fuel Choice

Moving Parties quote President Picker's perspective that to achieve California's greenhouse gas (GHG) goals, clean electricity needs to be the primary fuel in the State.⁸ However, multiple avenues exist that will reduce GHG emissions from natural gas. The California Air Resources Board's (CARB's) GHG Standards for Crude Oil and Natural Gas Facilities (Oil & Gas Rule) should reduce emissions from the natural gas transmission and storage sectors. CARB states that the Oil & Gas Rule aims to reduce emissions from oil and gas systems by 40-45% by 2025.⁹ Further, CARB's 2017 Climate Change Scoping Plan Update demonstrates that California can meet its 2030 goals without electrification of buildings. The Proposed Scoping Plan Scenario analysis states that this scenario does not include fuel-switching of natural gas or diesel end uses to electric end uses.¹⁰ Rather, the 2030 goal can be met by extending existing programs such as cap-and-trade and the Low Carbon Fuels Standard, and implementation of new legislation such as Senate Bill (SB) 1383. CARB's Scoping Plan economic analysis also demonstrates that the Proposed Scenario achieves the 2030 goal in a more cost-effective manner than alternative scenarios that include electrification of buildings.¹¹

⁸ See *Id.* at 4.

⁹ See Public Hearing to Consider the Proposed Regulation for Greenhouse Gas Emissions Standards for Crude and Natural Gas Facilities, Staff Report: Initial Statement of Reasons, p. 3. Available at <https://www.arb.ca.gov/cc/oil-gas/Oil%20and%20Gas%20ISOR.pdf>.

¹⁰ See CARB Proposed Scoping Plan (January 2017), Appendix D, pp. 8-9. Available at https://www.arb.ca.gov/cc/scopingplan/app_d_pathways.pdf.

¹¹ See *Id.*, Appendix E, at 17. Available at https://www.arb.ca.gov/cc/scopingplan/app_e_economic_analysis_final.pdf.

C. The Test Does Not Limit EE Opportunities or Program Performance

Moving Parties present several overstated claims about the Test's limiting effect on EE opportunities and impacts to program performance. For example, contrary to the Moving Parties' claim that existing EE programs are being administered inconsistently across the state,¹² SoCalGas and Southern California Edison Company jointly-administer the residential Home Upgrade Program in a manner that does not prevent fuel substitution measures, as this would directly contradict Commission policy. Further, the Test does not affect the cost-effectiveness of the program design. Additionally, the Test does not present a barrier to Program Administrators from offering fuel substitution programs as part of its EE Business Plan.¹³ The Test is intended to facilitate programs and measures that are cost-effective, save energy, and do not adversely affect the environment, consistent with Commission policy.

D. Fuel Switching is Not Fuel Substitution and is Irrelevant to the Test

The Motion contends that there are issues regarding conditions the three-prong test must pass for substitution between regulated fuels (electricity and natural gas) versus the substitution between regulated and unregulated fuels (e.g., propane and wood).¹⁴ This issue is not relevant to the Test, where the latter case should be considered fuel switching and not fuel substitution. The California Energy Commission (CEC) has stated that unlike fuel switching measures, fuel substitution measures involve reducing either electricity or natural-gas usage and are expected to result in lower BTU consumption.¹⁵

¹² See Motion at 8-9.

¹³ See *Id.* at 9.

¹⁴ See *Id.* at 1.

¹⁵ See CEC Staff Paper: Framework for Establishing the Senate Bill 350 Energy Efficiency Savings Doubling Targets (January 2017), p. 19.

The CEC introduced an approach in its July 11, 2016 workshop for differentiating fuel substitution from fuel switching, which was later elaborated in its January 2017 CEC staff paper on the draft framework for establishing SB 350's doubling of energy savings targets. The staff paper explains the difference between fuel switching and fuel substitution as follows:

Fuel-switching measures involve shifting from an energy source that is not utility-supplied/interconnected (such as petroleum) to a utility-supplied/interconnected energy source (including rooftop solar) Fuel-switching measures (including electrification of transportation) should not be included [in Energy Efficiency targets] because such measures do not involve reducing either electricity or natural-gas usage.

Fuel-substitution measures involve substituting one utility supplied/interconnected energy source (that is, electricity and natural gas) for another. Unlike fuel switching measures, these measures involve reducing either electricity or natural-gas usage and are expected to result in lower BTU consumption¹⁶

Based on the proposed definitions, fuel switching should not be eligible for EE funding. Thus, the Test is not applicable to fuel switching projects/programs which do not involve the reduction of either electricity or natural-gas usage, but rather on load growth or building, which is already explicitly excluded under current EE policy.¹⁷

As noted by Moving Parties, a similarly motivated motion was denied without prejudice in the Integrated Distributed Energy Resources (IDER) proceeding (Rulemaking 14-10-003). The Commission stated that “. . . the Test evaluates substitution between ratepayer-funded gas and electric energy efficiency technologies to determine eligibility for energy efficiency program incentive.”¹⁸ Therefore, Moving Parties' claim that reviewing the Test will aid in understanding

¹⁶ See *Id.* at 18-19.

¹⁷ See Energy Efficiency Policy Manual, Version 5, July 2013, p. 24.

¹⁸ See R.14-10-003, Administrative Law Judge's Ruling Denying Without Prejudice the Request to Review the Three-Prong Fuel Substitution Test in this Proceeding (May 5, 2017), p. 5.

energy options available to serve residents in disadvantaged communities in the San Joaquin Valley is flawed and contrary to guidance from CEC.

E. Review of the Test Has No Impact on the Aliso Canyon Affected Area

Moving Parties claim that reviewing the Test will allow the Commission to consider electrification as a means to addressing electric system constraints due to the Aliso Canyon incident.¹⁹ Moving Parties assume that reviewing the Test is necessary to clarify the range of options for reducing natural gas consumption. It is extremely unlikely that assumptions regarding EE and electrification potential will be driven by the Test, which after all, only determines whether specific fuel substitution projects are eligible for EE incentives. It does not otherwise determine feasibility or outcome of fuel substitution projects. As such, any connection between the Test and the Aliso Canyon feasibility analysis is at best tangential.

F. If the Motion is Granted, a Formal and Full Evidentiary Process is Necessary

Adjusting the Test should require a thorough evidentiary review process to develop a sufficient record and to evaluate technically complex issues and factual disputes. For instance, Moving Parties reference an American Council for an Energy-Efficient Economy study to support their claim that electric water heating technology reduce GHG emissions over gas water heaters at higher levels of renewable electric penetration.²⁰ The data represents a simplified example of GHG emissions for different water heater technologies and does not include the case of low-carbon gas to reduce GHG emissions from natural gas²¹ which has been included in California's GHG reduction policies, such as SB 1383.

¹⁹ See Motion at 8.

²⁰ See *Id.* at 5-6.

²¹ See Mahone et al., "What if Efficiency Goals Were Carbon Goals?" (ACEEE Summer Study 2016), pp. 9-7.

III. CONCLUSION

For the reasons stated herein, SoCalGas requests that the Commission deny the Motion. The existing Test is the appropriate Test to protect ratepayers' interests in evaluating fuel substitution for EE technologies/programs/projects for their net resource value of energy savings, environmental benefits, and cost-effectiveness. Should the Commission desire to revisit the Test in Phase 3 of this proceeding, it should allow for a full evidentiary process so that parties can sufficiently evaluate and examine the assertions, facts, and evidence Moving Parties intend to introduce.

Respectfully submitted on behalf of
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June 23, 2017